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UNCLAS SECTION 01 OF 02 VIENNA 000335

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SUBJECT: AUSTRIAN HEALTH CARE REFORM: SMALL STEP TOWARDS "SUSTAINABILITY"

REF: 04 VIENNA 4451

#### SUMMARY

**¶1.** (SBU) On January 1, the GoA launched the first steps of a comprehensive health care reform. The reform aims to slow exploding costs, which now represent 9% of GDP. The reform includes the establishment of centralized Health Care Agencies, which should reduce the complex regional bureaucratic health care system. The GoA hopes the reform will guarantee the sector's financial sustainability through anticipated savings of Euro 300 million annually and an increase of another Euro 300 million annually in individual contributions. One independent analyst opined that while the GoA reforms aim to reduce spiraling costs, an equally important aim of the center-right government is to limit the influence of states and labor unions in the health care sector. End Summary.

#### RISING COSTS WITHIN A COMPLEX, BUREAUCRATIC SYSTEM

**¶2.** (U) The Austrian health care system is facing increasing financial pressures. Since the end of World War II, a complex system has evolved with a multitude of stakeholders, including all nine state governments and various governmental social security companies based on professional affiliations (e.g., farmers, civil servants, private sector employees, and self-employed). Health care expenditures greatly exceed revenues. According to figures from the Social Security Fund (umbrella organization for the pension fund and health care funds), the health care "deficit" amounted to Euro 320 million in 2003, and will almost double to Euro 580 million by 2006. Experts maintain that the GoA must reduce spending by at least Euro 300 million per year to guarantee the system will not collapse in the near future.

**¶3.** (U) Virtually all occupational associations have to pay a percentage of their income into the mandatory Austrian social insurance system for health care funds. These funds cover ambulatory care and drugs. State governments are responsible for financing inpatient care. The current system does not contain incentives for cost containment and costs are therefore exploding. Health care costs have risen from 7.5% of GDP in 2000 to 9% (Euro 21 billion) of GDP in **¶2003**. However, this figure is still only slightly above the EU-15 average. Social insurance payments from the various occupational associations provide for 70% of the system, state budgets for 20%, and individual contributions account for the remaining 10%.

#### REDUCING COSTS THROUGH CENTRALIZATION AND SAVINGS

**¶4.** (U) In December 2004, the Austrian Parliament unanimously voted to move forward with health care reform. However, the opposition parties -- Social Democrats and Greens - opposed the GoA's provisions on funding the reforms. The centerpiece of the reform is the introduction of a federal "Health Care Agency" and state "Health Care Platforms" to coordinate the fragmented financing system between the health care funds and the federal and state governments. The Ministry of Health aims to centrally organize all health agendas in these agencies by creating a single financial pool. This centralization should also enhance integration of inpatient and outpatient/ambulatory care, and the creation of an IT-based health management, two key issues to achieve cost reduction. As part of this effort, by the end of 2005 every Austrian will have an e-card that contains personal medical data to facilitate medical services.

**¶5.** (U) The GoA recognizes that structural reform alone does not lead to sufficient cost reduction. To guarantee state-of-the-art medical care for all patients, the federal government and the states agreed to raise overall health care contributions by another Euro 300 million. This includes a general increase of employer and individual health care contributions, a rise in hospital fees, an additional payment increase for high-income individuals, and a higher tobacco tax.

EXPERTS: AUSTRIANS LIKE "SOLIDARITY", NO "AMERICAN APPROACH"

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16. (SBU) Maria Hofmarcher from the independent Institute for Advanced Studies told post that "solidarity" is still a high priority for Austrian health policy. People are still willing to finance state-of-the-art medical treatment for all Austrians through higher public expenditures and progressively higher individual contributions, primarily affecting high-income earners. Suggestions for across-the-board increases in individual contributions for health care are extremely unpopular. Hofmarcher emphasized the importance of pooling hospital financing in central agencies to ensure efficiency and improve allocation in inpatient care. The main objectives of the reform, she opined, are to limit the power of the states and the health care funds, and to reduce the influence of labor unions within the social security institutions.

17. (SBU) Christian Koeck, a Health Management Professor and owner of a private hospital management firm, told post he was not optimistic about the outcome of the reform. Koeck said he did not advocate "privatizing health care on the American model", but he criticized Austria for having the "second most bureaucratic health care system in the EU." In Koeck's opinion, the steady increase in health care expenditures as a percentage of GDP is worrisome. According to Koeck, the government's reform is a step in the right direction, but not far enough. The problem of "quality control" remains a concern despite the introduction of the health care agencies. Particularly in the hospital sector, Koeck claimed there were potential savings of around Euro two billion.

COMMENT

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18. (SBU) The GoA health care reform is well directed, but do not go far enough. There is still potential for more market access in the pharmaceutical sector (reftel), and we see room for a more streamlined effort reform in the other areas of health care reform, particularly in rationalization of hospitals. It will be difficult to reduce permanently and effectively the influence of stakeholders, particularly the bureaucratic maze of various health care associations based on occupational and regional affiliations. Nevertheless, health care reform is another step forward in the Schuessel Government's promised structural reforms. The limits to reform at this stage reflect political realities, rather than faulty economics.

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